



Brock Hughes Medical Center

BROCK HUGHES FREE CLINIC, INC.

FINANCIAL REPORT

September 30, 2018

BROCK HUGHES FREE CLINIC, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Brock Hughes Free Clinic, Inc.
Wytheville, Virginia

We have audited the accompanying financial statements of Brock Hughes Free Clinic, Inc., a not-for-profit organization, which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brock Hughes Free Clinic, Inc. as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
January 7, 2019

BROCK HUGHES FREE CLINIC, INC.

STATEMENTS OF FINANCIAL POSITION

September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 91,664	\$ 52,503
Grants receivable	41,112	88,893
Prescription inventory	686,806	1,001,761
Prepaid expenses and other	8,070	10,597
Hospice fund	24,784	28,937
	<hr/>	<hr/>
Total current assets	852,436	1,182,691
	<hr/>	<hr/>
Property and equipment, net (Note 3)	540,767	561,331
	<hr/>	<hr/>
Total assets	<u>\$ 1,393,203</u>	<u>\$ 1,744,022</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit (Note 4)	\$ 8,198	\$ 19,401
Accounts payable	3,624	5,638
Accrued wages and taxes payable	33,289	31,815
Hospice fund payable	24,784	28,937
	<hr/>	<hr/>
Total current liabilities	69,895	85,791
	<hr/>	<hr/>
NET ASSETS		
Unrestricted (Note 5)	146,785	123,724
Temporarily restricted (Note 6)	1,176,523	1,534,507
	<hr/>	<hr/>
Total net assets	1,323,308	1,658,231
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 1,393,203</u>	<u>\$ 1,744,022</u>

The Notes to Financial Statements are an integral part of these statements.

BROCK HUGHES FREE CLINIC, INC.

STATEMENT OF ACTIVITIES
Year Ended September 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES			
Public support	\$ 56,190	\$ -	\$ 56,190
State organization contribution	-	146,996	146,996
Grant income	-	365,657	365,657
Fundraising	817	-	817
Clinic prescription fees, net	42,697	-	42,697
Medical records	1,122	-	1,122
United Way contributions	2,860	-	2,860
Benevolent medication	-	-	-
Other income	-	-	-
Interest	515	-	515
In-kind, net	-	2,049,243	2,049,243
Net assets released from restrictions:			
Satisfactions of donor restrictions (Note 7)	2,919,880	(2,919,880)	-
Total revenues	<u>3,024,081</u>	<u>(357,984)</u>	<u>2,666,097</u>
EXPENSES			
Program services	2,913,298	-	2,913,298
General and administrative	87,669	-	87,669
Fundraising	53	-	53
Total expenses	<u>3,001,020</u>	<u>-</u>	<u>3,001,020</u>
Change in net assets	23,061	(357,984)	(334,923)
NET ASSETS			
Beginning	<u>123,724</u>	<u>1,534,507</u>	<u>1,658,231</u>
Ending	<u>\$ 146,785</u>	<u>\$ 1,176,523</u>	<u>\$ 1,323,308</u>

The Notes to Financial Statements are an integral part of these statements.

BROCK HUGHES FREE CLINIC, INC.

STATEMENT OF ACTIVITIES
Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES			
Public support	\$ 68,105	\$ -	\$ 68,105
State organization contribution	-	197,851	197,851
Grant income	-	261,106	261,106
Fundraising	11,605	-	11,605
Clinic prescription fees, net	41,181	-	41,181
Medical records	1,593	-	1,593
United Way contributions	3,010	-	3,010
Benevolent medication	-	17,220	17,220
Other income	-	-	-
Interest	140	-	140
In-kind, net	20,000	1,411,422	1,431,422
Net assets released from restrictions:			
Satisfactions of donor restrictions (Note 7)	2,464,818	(2,464,818)	-
Total revenues	<u>2,610,452</u>	<u>(577,219)</u>	<u>2,033,233</u>
EXPENSES			
Program services	2,457,845	-	2,457,845
General and administrative	77,565	-	77,565
Fundraising	139	-	139
Total expenses	<u>2,535,549</u>	<u>-</u>	<u>2,535,549</u>
Change in net assets	74,903	(577,219)	(502,316)
NET ASSETS			
Beginning	48,821	2,111,726	2,160,547
Ending	<u>\$ 123,724</u>	<u>\$ 1,534,507</u>	<u>\$ 1,658,231</u>

The Notes to Financial Statements are an integral part of these statements.

BROCK HUGHES FREE CLINIC, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2018

	Program Services	General and Administrative	Fundraising	Total
In-kind	\$ 2,393,815	\$ -	\$ -	\$ 2,393,815
Salaries – clinical	341,093	63	-	341,156
Employee benefits	53,501	8,177	-	61,678
Salaries – administrative	5,903	52,075	-	57,978
Professional fees	25,073	18,465	-	43,538
Payroll taxes	29,892	4,326	-	34,218
Depreciation	19,536	1,028	-	20,564
Telephone	13,597	684	-	14,281
Repairs and maintenance	5,976	310	-	6,286
Office supplies	5,411	345	-	5,756
Medicine purchased	5,238	-	-	5,238
Insurance	4,253	821	-	5,074
Utilities	3,666	195	-	3,861
Dues	2,913	141	-	3,054
Travel	2,047	181	-	2,228
Fundraising	827	26	53	906
Interest	-	797	-	797
License	322	25	-	347
Postage	235	10	-	245
Advertising	-	-	-	-
Total	<u>\$ 2,913,298</u>	<u>\$ 87,669</u>	<u>\$ 53</u>	<u>\$ 3,001,020</u>

The Notes to Financial Statements are an integral part of these statements.

BROCK HUGHES FREE CLINIC, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2017

	Program Services	General and Administrative	Fundraising	Total
In-kind	\$ 1,988,942	\$ -	\$ -	\$ 1,988,942
Salaries – clinical	278,870	189	-	279,059
Employee benefits	47,341	7,669	-	55,010
Salaries – administrative	2,166	45,670	-	47,836
Professional fees	25,072	14,100	-	39,172
Payroll taxes	25,330	3,834	-	29,164
Depreciation	18,786	989	-	19,775
Telephone	16,135	844	-	16,979
Repairs and maintenance	10,949	598	-	11,547
Office supplies	6,332	425	-	6,757
Medicine purchased	22,564	-	-	22,564
Insurance	4,381	909	-	5,290
Utilities	3,914	206	-	4,120
Dues	2,095	155	-	2,250
Travel	3,248	494	-	3,742
Fundraising	-	-	139	139
Interest	-	1,401	-	1,401
License	420	33	-	453
Postage	681	49	-	730
Advertising	619	-	-	619
Total	<u>\$ 2,457,845</u>	<u>\$ 77,565</u>	<u>\$ 139</u>	<u>\$ 2,535,549</u>

The Notes to Financial Statements are an integral part of these statements.

BROCK HUGHES FREE CLINIC, INC.

STATEMENTS OF CASH FLOWS
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (334,923)	\$ (502,316)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	20,564	19,775
Donations of property and equipment, net	-	(20,000)
Change in:		
Grants receivable	47,781	180
Prescription inventory	314,955	562,897
Prepaid expenses and other	2,526	(980)
Accounts payable	(2,014)	5,638
Accrued wages and taxes payable	1,475	8,635
Settlement payable	-	(30,000)
Net cash provided by operating activities	<u>50,364</u>	<u>43,829</u>
FINANCING ACTIVITIES		
Payments on line of credit	<u>(11,203)</u>	<u>(10,598)</u>
Net cash used in financing activities	<u>(11,203)</u>	<u>(10,598)</u>
Net change in cash and cash equivalents	39,161	33,231
CASH AND CASH EQUIVALENTS		
Beginning	<u>52,503</u>	<u>19,272</u>
Ending	<u>\$ 91,664</u>	<u>\$ 52,503</u>
SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING ACTIVITIES		
Gift of property and equipment	<u>\$ -</u>	<u>\$ 20,000</u>

The Notes to Financial Statements are an integral part of these statements.

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 1. Organization and Nature of Activities

Brock Hughes Free Clinic, Inc. (the “Organization”) is a non-stock, non-profit corporation that provides health services, including medical care, counseling, and education, to those residents of Wythe and Bland Counties who may not otherwise have access to such services.

Note 2. Summary of Significant Accounting Policies

Basis of financial statement presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and accrued liabilities.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of reporting cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash is held in banks and is insured by the FDIC up to \$250,000 per financial institution. At times, the balances in these accounts may be in excess of insured limits.

Hospice fund account and payable

Hospice of Southwest Virginia is a service of Wythe County Community Hospital and is operated by Brock Hughes Free Clinic, Inc. Contributions made to this fund are deposited into the Hospice checking account and checks are written to meet the needs of hospice patients and their families.

Inventory

Prescription inventory consists of prescription medication and is stated at the lower of cost or net realizable value. Some prescriptions are purchased; however, most are donated to the Organization and are recorded at fair value at the time of gift.

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BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

Grants

The Organization receives grants and contracts from state agencies as well as from private organizations, to be used for specific purposes. The excess of reimbursable expenditures over cash receipts is included in grants receivable. Grants receivable consists of the following as of September 30:

	<u>2018</u>	<u>2017</u>
Wythe-Bland Community Foundation	\$ 6,438	\$ 47,606
Virginia Association of Free & Charitable Clinics	28,934	35,547
Virginia Healthcare Foundation	5,740	5,740
	<u>\$ 41,112</u>	<u>\$ 88,893</u>

Classification of net assets

The accompanying financial statements present information regarding the Organization's financial position and activities according to three classes of net assets, differentiated based on the existence or absence of donor-imposed restrictions, which are described below:

Unrestricted net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Expenses, revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification.

Temporarily restricted net assets are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the Organization pursuant to those stipulations.

Permanently restricted net assets are amounts required by donors to be held in perpetuity; however, the income on these assets is available to meet various restricted and other operating needs. There were no permanently restricted net assets at September 30, 2018 and 2017.

Contributions

Contributions, including unconditional promises to give or contributions receivable, are recognized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions, when the donor's commitment is received.

Conditional promises to give are not recognized until they become unconditional – that is, when the conditions on which they depend are substantially met. Contributions of certain assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. If necessary, an allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fundraising activity.

(Continued)

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Contributions of property and equipment without donor stipulations on the asset's use are reported as unrestricted net asset revenue. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Property and equipment

It is the Organization's policy to capitalize property and equipment acquisitions greater than \$10,000. Depreciation is provided over the estimated useful lives of the assets ranging from three to thirty-nine years and is computed on the straight-line method. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose.

Maintenance and repairs are charged to operating expenses and major alterations and renovations are capitalized.

Functional expenses

The Organization allocates operating expenses on a functional basis among its programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly.

Advertising costs

The Organization expenses advertising as incurred.

Income tax status

The Organization is exempt from federal and state income tax under Section 501(c)(3) of the *Internal Revenue Code* and the tax statutes of the Commonwealth of Virginia; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Organization has determined that they do not have any material unrecognized tax benefits or obligations as of September 30, 2018 and 2017.

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BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

Subsequent events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 7, 2019, the date the financial statements were available to be issued.

Note 3. Property and Equipment

Property and equipment consists of the following as of September 30:

	<u>Estimated Useful Life</u>	<u>2018</u>	<u>2017</u>
Land	-	\$ 67,100	\$ 67,100
Buildings and improvements	39 years	512,355	512,356
Furniture and equipment	3-10 years	50,081	50,081
		629,536	629,537
Less – accumulated depreciation		(88,769)	(68,206)
		<u>\$ 540,767</u>	<u>\$ 561,331</u>

The land and building and improvements were purchased with donor funds restricted for use as an Organization. In the event the Organization ceases to operate, the assets revert back to the donor.

Note 4. Line of Credit

On September 19, 2016, the Organization entered into an agreement for a \$60,000 line of credit which bears interest at PRIME rate plus 1.75% (6.25% at September 30, 2018), and is unsecured. The line of credit expires on September 19, 2019.

Note 5. Unrestricted Net Assets

Unrestricted net assets include the following:

	<u>2018</u>	<u>2017</u>
Amount to be used for future operations	\$ 121,983	\$ 83,587
Investment in property and equipment, net	24,802	28,585
Designated by the board of directors	-	11,552
	<u>\$ 146,785</u>	<u>\$ 123,724</u>

(Continued)

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets include the following:

	<u>2018</u>	<u>2017</u>
In-kind contributions of inventory	\$ 657,189	\$ 1,001,761
Building and improvement donations	<u>519,334</u>	<u>532,746</u>
	<u>\$ 1,176,523</u>	<u>\$ 1,534,507</u>

Note 7. Net Assets Released From Restrictions

Net assets are released from donor/grantor restrictions when expenses are incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Restrictions were satisfied as follows for:

	<u>2018</u>	<u>2017</u>
In-kind professional services and prescription medications	\$ 4,376,461	\$ 3,981,292
Less: cost of goods sold	<u>(1,982,646)</u>	<u>(2,006,072)</u>
In-kind professional services and prescription medications, net	2,393,815	1,975,220
Virginia Association of Free Clinics – State Funds Expense	146,996	197,851
Wythe-Bland Community Foundation	342,937	257,606
Benevolent Medication	-	17,220
Virginia Healthcare Foundation	17,220	3,500
Other	5,500	-
Depreciation on clinic	<u>13,412</u>	<u>13,421</u>
	<u>\$ 2,919,880</u>	<u>\$ 2,464,818</u>

The Organization has elected not to record various donated pharmaceuticals from the Medication Assistance Program. The Program donations are for specific patients and are treated as an agency transaction with the Clinic acting in an intermediary capacity. The Clinic estimates the retail value of these prescriptions received and delivered during the years ended September 30, 2018 and 2017 to be approximately \$2,720,000 and \$2,640,000, respectively.